

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-01 L-03 PA-01

PRS-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

AGRE-00 /104 W

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R 110255Z APR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8141

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 12/31/78

TAGS: EAID, EFIN, VS

SUBJECT: SOCIALIST REPUBLIC OF VIETNAM (SRV)

IN CONNECTION WITH INFORMAL "COFFEE SESSION" TO BE HELD
BY ADB MANAGEMENT WITH BOARD OF DIRECTORS ON BANK'S
OPERATIONAL PROGRAM FOR 1977, FOLLOWING COUNTRY SITUATION
NOTE ON SRV WAS CIRCULATED FOR INFORMATION OF BOARD:

I. RECENT DEVELOPMENTS

A. THE VERY SEVERE LACK OF MACRO-ECONOMIC DATA PRECLUDES
ANY DETAILED ANALYSIS OF THE ECONOMY OR OF ECONOMIC TRENDS.
HOWEVER, ACCORDING TO INFORMATION PROVIDED TO THE RECENT
MISSION TO VIET NAM, THE GOVERNMENT HAS BEEN CONCENTRATING
ITS EFFORTS SINCE APRIL 1975 ON ECONOMIC REHABILITATION
AND RECONSTRUCTION, AND ON LAYING THE ADMINISTRATIVE
GROUNDWORK FOR THE GRADUAL INTEGRATION OF THE TWO PREVIOUSLY
SEPARATE ECONOMIES, A PROCESS WHICH THE GOVERNMENT
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RECOGNIZES WILL TAKE MANY YEARS FOR COMPLETION. THE
GOVERNMENT ADMINISTRATION HAS BEEN UNIFIED, AS HAS THE
BANKING SYSTEM; ADDITIONALLY, THE BUDGET IS PREPARED ON
A NATIONAL BASIS AND THE ANNUAL PLAN FOR 1977 IS THE
FIRST YEAR FOR WHICH AN INTEGRATED PLAN HAS BEEN PREPARED
(AS PART OF THE SECOND FIVE-YEAR PLAN, 1976-80). CONTRARY
TO SOME EARLIER REPORTS, THE CURRENCY SYSTEM HAS NOT BEEN

UNIFIED: WHILE THE CURRENCY UNIT OF BOTH NORTH AND SOUTH IS THE DONG, THE DONG OF THE NORTH IS PHYSICALLY DIFFERENT FROM THE DONG OF THE SOUTH, AND OF A DIFFERENT VALUE.

2. DESPITE THESE FIRST STEPS TOWARDS INTEGRATION, THE ECONOMIC SYSTEMS OF NORTH AND SOUTH REMAIN DISTINCT FROM ONE ANOTHER. IN THE NORTH, INDUSTRY AND TRADE ARE MAINLY STATE-OWNED AND OPERATED EITHER DIRECTLY BY THE STATE OR BY COOPERATIVES, WITH ONLY MINOR EXCEPTIONS IN THE HANDICRAFT SECTOR, SERVICE TRADES AND REMOTE MOUNTAIN AREAS. AGRICULTURE IS LARGELY COLLECTIVIZED AND OPERATED BY COOPERATIVES OR, IN SOME CASES, AS STATE FARMS, WITH THE EXCEPTION OF FARM HOUSES AND HOUSE-GARDENS WHICH ARE PRIVATELY-OWNED AND WHOSE PRODUCE MAY BE SOLD EITHER PRIVATELY OR TO THE LOCAL COOPERATIVE. IN THE SOUTH, ON THE OTHER HAND, WHILE VIRTUALLY ALL LARGE FACTORIES AND EX-PLANTATIONS HAVE BEEN TAKEN OVER BY THE STATE, AGRICULTURAL LAND, RETAIL TRADE AND SMALL ENTERPRISES REMAIN IN PRIVATE HANDS. IN FACT, THE GOVERNMENT HAS DISTRIBUTED LAND IN RECENT MONTHS - BASED ON FAMILY SIZE AND CERTAIN OTHER CRITERIA - TO INDIVIDUAL FAMILIES, PENDING THE EVENTUAL REORGANIZATION OF AGRICUTLURAL LAND INTO COOPERATIVES. MOST OF THIS REDISTRIBUTION HAS TAKEN PLACE WITHIN THE SO-CALLED "NEW ECONOMIC ZONES", MAINLY TRACTS OF LAND THAT WERE ONCE FARMED BUT WHICH WERE ABANDONED DUE TO WAR.

II. SECOND FIVE-YEAR PLAN, 1976-80

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3. THE MAIN THRUST OF THE SECOND PLAN IS TO ASSIGN TO THE AGRICULTURAL SECTOR (INCLUDING FORESTRY AND FISHERIES) AND TO CONSUMER GOODS INDUSTRIES THE "BASIC ROLE" IN DEVELOPMENT AND IN PROVIDING FOR INCREASES IN EXPORTS; TO ASSIGN TO ENGINEERING AND OTHER HEAVY INDUSTRIES THE "LEADING ROLE" IN DEVELOPMENT; AND TO ENCOURAGE EACH TO COMPLEMENT THE OTHER. A TOTAL OUTLAY OF \$7.5 BILLION IS EVNISAGED, OF WHICH 30 PERCENT WILL BE DEVOTED TO AGRICULTURE AND 35 PERCENT TO INDUSTRY. (THE REMAINING 35 PERCENT IS NOT SPECIFIED). THIS TOTAL OUTLAY - N. DONG 30 BILLION - IS SAID TO BE COMPRISED OF FORECAST DOMESTIC SAVINGS PLUS FOREIGN SAVINGS ALREADY COMMITTED BY SOCIALIST COUNTRIES AND, IF EITHER OR BOTH SHOULD INCREASE, THE EXPENDITURE TARGET WILL BE RAISED.

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4. THE PLAN AIMS AT AVERAGE ANNUAL INCREASES IN NATIONAL INCOME OF 13-14 PERCENT. HOWEVER, SINCE MACRO-PLANNING IN VIET NAM APPEARS TO BE BASED ON CONCEPTS FUNDAMENTALLY DIFFERENT FROM THOSE IN THE BANK'S OTHER DMCS, THE VIETNAMESE TARGET IS NOT DIRECTLY COMPARABLE TO TARGETS ELSEWHERE. NEVERTHELESS, THE GOVERNMENT HAS PLANNED FOR HIGH RATES OF GROWTH THROUGH RECOGNIZES THAT THOSE MAY NOT BE CONTAINED INDEFINITELY. IN THE MEDIUM-TERM, AS WAR-DAMAGED AREAS AND WAR-DISPLACED PEOPLE ARE RETURNED TO NORMAL PEACETIME OCCUPATION, SUBSTANTIAL INCREASES IN OUTPUT CAN BE EXPECTED. FOR INSTANCE, THE RESETTLEMENT OF ONE MILLION HECTARES IN THE "NEW ECONOMIC ZONES" IS LIKELY TO LEAD TO SIGNIFICANT INCREASES IN AGRICUTLURAL PRODUCTION, IRRESPECTIVE OF WHETHER MODERN TECHNOLOGY IS INTRODUCED CONCURRENTLY.

III. AID SITUATION

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5. NO COMPREHENSIVE DATA ON AID INFLOWS EXIST, PARTICULARLY FROM SOCIALIST BLOC COUNTRIES WHICH ARE PROBABLY THE LARGEST CONTRIBUTORS. THESE COUNTRIES ASIDE, SWEDEN HAS A VERY LARGE PROGRAM OF ASSISTANCE, FAR LARGER THAN

OTHER COUNTRIES ALTHOUGH SOME OF THESE COUNTRIES - PARTICULARLY FRANCE, JAPAN, NETHERLANDS, AUSTRALIA AND UK - APPEAR WILLING TO INCREASE THEIR CONTRIBUTIONS. IN THE CASE OF SWEDEN, \$250 MILLION HAS BEEN COMMITTED IN THE PAST FOR A PAPER MILL, APPROXIMATELY \$30 MILLION FOR TWO HOSPITALS, AND NEARLY \$40 MILLION FOR COMMODITY AID DURING 1977. IN ADDITION, A TOTAL GRANT CONTRIBUTION OF ABOUT \$265 MILLION HAS BEEN ALLOCATED FOR THE PERIOD 1978-80

IV. BANK OPERATIONS IN 1977

6. IN APRIL 1975, THE BANK SUSPENDED THE BORROWER'S RIGHT OF DISBURSEMENT ON THE APPROVED LOAN PROJECTS. ACTION WAS ALSO SUSPENDED WITH REGARD TO STEPS REQUIRED FOR MAKING CERTAIN LOANS EFFECTIVE. A BANK MISSION HAS REVIEWED THE STATUS OF APPROVED PROJECTS IN JANUARY 1977. A DETAILED REPORT OF THE MISSION IS UNDER PREPARATION. OPERATIONAL ACTIVITIES IN 1977 WOULD BY AND LARGE CONSIST OF EXAMINATION OF INDIVIDUAL APPROVED PROJECTS IN THE LIGHT OF NEW CIRCUMSTANCES IN VIET NAM. IT WOULD BE PREMATURE AT THIS STAGE TO OUTLINE ANY POSSIBLE NEW PROGRAM OF OPERATIONS FOR 1977 OR BEYOND.
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